

AGRICULTURAL COOPERATIVES --  
A TOOL OF MODERN AGRICULTURE

By

Charles H. Ingraham  
Extension Economist  
Business Management  
Ohio State University

Agricultural cooperatives are one among many tools farmers have to assist them in efficiently producing and marketing food and fiber. The agricultural cooperative is comparable to the farm tractor as each requires skilled operators, sufficient energy to operate, good maintenance to be in top working condition, and fitted for the job.

Many of our agricultural cooperatives started in the 1920s and 30s, about the time "Fordson" tractor was a tool of modern agriculture. As the demands of agriculture outgrew the capabilities of the "Fordson," cooperatives also had to change, adjust and grow to continue being an effective tool for modern agriculture.

The old 1923 Fordson had some basics that are found in today's modern farm tractor. The old and the new each have wheels, an engine, transmission, steering wheel, and a seat; but these basics are quite different in the old and the new as the engineers have built today's tractors to serve today's farmers. The same is true for agricultural cooperatives. The same basics that were required in our cooperatives in the 1920s and 30s can be found in today's cooperatives. Like the tractor, it has been necessary for agricultural cooperatives to adjust, change and grow in order to be an effective tool for modern farmers. Agricultural cooperatives still maintain the three basic principles: (1) democratic control (people control rather than dollars), (2) limited interest on equity capital (so the savings of the cooperative will be returned to the user rather than the investor), and (3) operation at cost (which means that cooperatives price their services and/or products competitively and at the end of the business year if the cooperative has margins, they will be refunded to those who patronize the cooperative, or if it has not charged enough margin to cover the costs of operation, the users will be asked to pay their share of the loss so that each year their cooperative breaks even).

Today's agricultural cooperatives like the tractor and other farm tools are often larger and constructed to serve today's needs. As tractors took on more of the farm work, they required more fuel. As cooperatives take on more marketing tasks and services, they require more capital.

Today's cooperatives and today's tractors each require skilled operators. The cooperative and the tractor are each more effective and sophisticated tools than the 1920 or 1930 models. The operators of each tool must know its capabilities

---

Prepared by Dr. Charles H. Ingraham, Extension Economist, Business Management, Ohio State University.

and how best to employ it. The farmer must keep his tractor and his cooperative in top performance condition if it is to serve him efficiently.

The operators of the cooperative are - the board of directors and they must know the capabilities and limitations of the cooperative. Like the tractor operator, directors must be trained to perform their tasks in a responsible manner.

Some farmers may prefer to farm without their cooperative just as some may prefer to farm without tractors. This may be because they don't understand how they can use their cooperative. Often some farmers fail to realize that those who own the cooperative do not buy from or sell to the cooperative but use it as a tool and sell through or purchase through their cooperative.

#### WHAT A CO-OP IS

A cooperative is a business formed by a group of people to obtain certain services for themselves more effectively or more economically than they can obtain them individually. These people own, finance, and operate the business for their mutual benefit. Many cooperatives were organized to provide services that were not or would not be available otherwise.

Cooperatives perform one or more of three kinds of functions: Marketing products, purchasing supplies, and providing services such as electricity, credit, irrigation, water, or artificial insemination.

Cooperatives are usually incorporated under the laws of the state in which they have their main office. Production Credit Associations, Federal Land Banks, and Federal Savings and Loan have federal charters. They have bylaws or codes of regulations and articles of incorporation. Members elect a board of directors to manage the cooperative. The board of directors makes general policies and hires a manager. The manager is responsible to the board for the day-to-day business of the cooperative.

#### A COOPERATIVE DEFINED<sup>1/</sup>

"A cooperative is a voluntary contractual organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a nonprofit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operation risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative's services. A cooperative is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative."

---

<sup>1/</sup> Cooperative Criteria, Service Report 71, Farmers Cooperative Service, February, 1965.

## COOPERATIVES ARE PEOPLE

A cooperative is not an easy solution to all economic problems. A cooperative is a business operation. It is, in fact, an extension of the agricultural production operation. Some say a cooperative is an extension of the farm fences.

When a cooperative is organized and goes into business it may cause an increase in competition and improve the service provided by existing businesses.

A member of a farmer cooperative must patronize his cooperative if he expects it to be successful. The economic benefits of a cooperative go to users only, not investors.

## COOPERATIVES ARE COMPETITIVE BUSINESSES

A cooperative is a business enterprise; it is a business that is organized, owned, and controlled democratically by people who have joined together voluntarily in a contractual arrangement to provide themselves with needed supplies and/or services.

Most agricultural cooperatives are chartered under state laws and operate under the same federal and state business laws and regulations as other firms. Agricultural cooperatives are not exempt from antitrust or taxes.

The primary objective of a cooperative is to improve the economic welfare of its members. Economic welfare does not merely refer to financial savings (lower prices) or increased monetary returns (higher prices). It cuts much deeper and goes to the relationship of man to man in his economic life. Quality of product, a needed service, ownership control, increased equity in his cooperative business and the satisfaction of self-help are all important benefits of a cooperative and sometimes of more importance than the direct financial benefit which results from the cooperative enterprise.

## COOPERATIVES HAVE REPRESENTATIVE CONTROL

The method of government of a corporation is representative and is like the representative democracy we employ to govern our state and national government.

The governing body of all types of corporations, including cooperatives, is the board of directors. Members of the board of directors of all types of corporations are elected by shareholders and these boards in turn elect the officers of the corporation.

Boards of directors for all types of corporations, including cooperatives, are the policy determining bodies of the corporation, and also the bodies which, either generally or specifically, authorize business transactions.

Theoretically, control of the investor-oriented business enterprise is in the stockholders on a capital ownership basis. As a rule, in a general corporation

# AMERICAN FORMS OF BUSINESS

## A Comparison

CHARACTERISTICS	TYPES OF BUSINESS ENTERPRISE			
	INDIVIDUAL	PARTNERSHIP	ORDINARY CORPORATION	COOPERATIVE CORPORATION
OBJECTIVE	Profit for the individual	Profit for the partners	Profit for the investing stockholders	Profit for the members that use the co-op
USERS	The public	The public	The public	Members and the public
OWNERSHIP AND CONTROL	The individual	The partners	Dollars invested common stock	Members--usually one vote each
MANAGEMENT	The individual	The partners	Board of Directors	Board of Directors
LEGAL STATUS	Usually unincorporated	Legal agreement between associates under State law	Incorporated under State law	Incorporated under State law. (Farm credit federal associations and federal Savings & Loan Associations have federal charters)
LIABILITY	Assets of the individual	Assets of each partner	Assets of the corporation	Assets of the cooperative corporation
RETURN ON CAPITAL INVESTED	Unlimited	Unlimited	Unlimited	Limited by law 8%
WHO GETS NET PROCEEDS?	The individual	The partners	The stockholders	The patrons in proportion to use of the cooperative
EXEMPT FROM ANTI-TRUST	No	No	No	No
EXEMPT FROM TAXES	No	No	No	No

one vote toward the election of directors is given for each share of common or voting stock the stockholder owns. However, the various devices of holding companies, voting-trusts, and the like, permit economic domination over the business by a relatively small group.

#### COOPERATIVES HAVE DEMOCRATIC CONTROL

The democratic control feature of a cooperative commonly referred to as one-member-one-vote is a corporate device being used in its original form, since, historically, all members of corporations had only one vote.

Historical accounts of cooperatives report that in the late 1800s some farmers gave up control of their cooperatives and lost their investment in their cooperative when they abandoned the cooperative principle of democratic control. It is reported that farmers were led to believe that in order to attract investments and large farmers they needed to provide for control of the cooperative on the basis of investment. The new firm operated for the benefit of its controlling investors not its patrons.

Most state cooperative statutes passed in the 1920s were very specific in protecting the democratic control features of agricultural cooperatives as a result of these disastrous past experiences.

The democratic control feature of a cooperative is well recognized. Some writers have used the term democracy to mean a society in which the people who compose it are their own governors, much as the policyholders of a mutual insurance company are their own insurers or members of a marketing cooperative collectively provide their own marketing facilities.

The membership of a cooperative has the responsibility to periodically check to make certain that their cooperative is still democratically controlled. The test is a simple one. Do the people (member-stockholders) rule?

Such variations in equality of voting are but one factor to be considered in determining the cooperative character of an organization. The others are: (1) distribution of savings to users not to investors, and (2) limited return on equity capital. Certainly minor inequalities in control, if sanctioned by the democratic action of a majority of the membership and permitted by statute, do not prevent an organization from being a cooperative.

#### DIRECTORS HAVE DEFINITE RESPONSIBILITIES

When a member of a cooperative is elected by his fellow members to a position on the board of directors, he faces a two-fold challenge: (1) To represent all stockholders or members of the cooperative; and (2) He is vested by law with the responsibility to reasonably conduct the affairs of the cooperative for the welfare of the cooperative as a firm.

As a board member he has legal, general, and moral responsibilities in representing all stockholders or members of the cooperative.

What does the word responsibility mean? Responsibility is the obligation of an individual to carry out assigned activities to the best of his ability.

The acceptance of an obligation by an individual to perform work on or carry out assignments creates his responsibilities. Therefore, when the member of the cooperative who has been elected a director accepts the position, he implies that he recognizes the responsibility of the position, the specific responsibilities set forth in the cooperative's bylaws, and agrees to discharge these responsibilities to the best of his ability.

A board of directors is the governing body of a corporation legally created under state statutes and issued a "charter." The state statutes give the directors authority to exercise all the powers of the corporation, limited only by any conditions set forth in the statute and the corporation's bylaws.

Members of the cooperative elect a director to a position of trusteeship. In effect, they legally place their financial interests in their cooperative in the hands of the director they elect.

#### DIRECTORS REPRESENT PEOPLE, NOT DOLLARS

A cooperative director does not make decisions for himself but for the total membership of his cooperative. A director has the duty to vote for the best interest of the total membership, not for his own personal interest. In this respect, his power to vote as a director is entirely different from that of an investor corporation board member who may quite properly vote to serve his own interest as a major investor or an agent for a few major investors in the firm.

#### MEMBERS DESERVE THE DIRECTORS THEY ELECT TO THE BOARD

Members of a cooperative deserve the directors they elect to represent them and their interest in their cooperative and, once elected, cooperative directors deserve the support of the membership that requested that they take time from their farming operation to manage the affairs of their cooperative.

#### THE JOB OF A COOPERATIVE DIRECTOR IS SPECIAL

The position of director in a cooperative differs from that of a director of an investor-oriented business. Directors of non-cooperatives are usually the principle owners of the firm, and they may serve not only as a director of their firm but also as an executive or manager.

The director of a cooperative is elected democratically without regard to his investment in the cooperative. In fact, the total investment of the president of a cooperative usually needs to be only one membership fee or one share of stock. The president of an agricultural cooperative is prohibited by statute or bylaws from owning sufficient voting shares of stock to assure his reelection to the board, let alone assuring him of the presidency. The cooperative's ownership is

not controlled by the board of directors as is often the case in the general corporation.

#### DIRECTORS EXERCISE FINANCIAL CONTROL

The directors of a cooperative have important financial functions. They have the responsibility of returning the net margins or assigning the losses to the patrons on a patronage basis.

#### DIRECTORS INFORM MEMBERS

The director of a cooperative has the responsibility of keeping membership informed as to the activities of their cooperative. This responsibility is shared, however, with members who have the responsibility of seeking out this information by reading reports and attending meetings.

The members of the cooperative are also responsible for the prudent use of information they receive about their cooperative. A cooperative gives a report of its affairs, activities, and future plans to all members. Non-cooperatives may need only to inform the major investors of the firm of the firm's activities and future plans. These major investors may all be members of the board of directors of a general corporation.

#### COOPERATIVE DIRECTORS ARE ALSO CO-OP MEMBERS

The director of a cooperative must recognize that, except when the board is in formal meeting, his authority is equal only to the rights and authority of any individual member of their cooperative. This applies to each director of a cooperative regardless of the position he may hold on the board.

Directors of investor-oriented firms by virtue of their ownership control of voting stock are the major owners, major decision makers, major controllers of the firm, and personally may hold the votes necessary to back up his position.

As individuals, the members of the board of directors of a cooperative have no authority to act for, or bind the corporation, unless they are duly elected or appointed to do so in a legal meeting of the board of directors.

#### MEMBERS CONTROL COOPERATIVES

As a rule, members lose control of their cooperative because they abdicate their responsibility to participate in the democratic representative process that governs and controls their cooperative. The law provides for an annual meeting at which time the board will report to the membership on the operation of their co-op. Members have the responsibility to participate in annual and membership meetings. The term "members" is used in cooperatives to refer to holders of common voting stock.

The democratic control principle of a cooperative simply means that each person is entitled to only one or a minute number of votes. In a cooperative, people, not dollars, vote.

If a statute contemplates one vote for each share of common stock, pure democracy and control can exist by limiting ownership of each member to only one share or by requiring all members to own an equal amount of voting shares of stock. Most local cooperatives limit each member to one share of voting stock or one vote.

The bylaws are the rules members establish for directors to operate the cooperative. Each member should keep his copy available for reference.

#### COOPERATIVE EMPLOYEES HAVE A UNIQUE POSITION

A distinctive feature of the cooperative is the closer relationship between the business entity and its patrons than that characterizing other forms of business. This closer relationship between the cooperative and the patrons is governed by the provisions of the statute, articles of incorporation, bylaws and membership contract.

Cooperatives are people, people working together. Employees must not only sell goods and services by informing customer-owners of the cooperative principles but must use tact and judgement as they communicate between the co-op, its owners and the public. To many people, the cooperative is its employees.

#### SUMMARY

Cooperatives are a tool of modern agriculture. Cooperatives permit farmers to extend their farm fences to benefit from the value added to their production activities.

There are three basic principles that distinguish cooperatives from other firms in our free competitive economy.

1. Operations at cost. Savings above the cost of doing business are returned to patrons in proportion to the use the individual patron made of his cooperative.
2. Democratic control. Control of the firm is in the hands of its members as individuals rather than as investors.
3. Limited return on equity capital. The firm limits the interest paid on equity capital to an amount less than 8%.